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INFO RUEHZS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS
RUCPDOC/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEHKL/AMEMBASSY KUALA LUMPUR 2354
RUEHBK/AMEMBASSY BANGKOK 8045
RUEHGP/AMEMBASSY SINGAPORE 6085

UNCLAS SECTION 01 OF 02 JAKARTA 001957

SIPDIS

SINGAPORE FOR SUSAN BAKER

SIPDIS
SENSITIVE

DEPT FOR EAP/MTS, EAP/RSP, EB/TPP, EB/TPP/BTA
COMMERCE FOR SBERLINGUETTE
USTR FOR DKATZ, RBAE
TREASURY FOR IA-BAUKOL

E.O. 12598: N/A

TAGS: CASC ASEC EINV ECON KCOR ID

SUBJECT: GOI PROMISES SWIFT RESPONSE TO NIKE TRADE DISPUTE

¶1. (SBU) Summary. On July 18, Ambassador Hume met with Muhammad Lufti, Chairman of the Government of Indonesia (GOI) Investment Coordinating Board (BMPK) at Lufti's request to discuss the escalating trade dispute between U.S.-based Nike Corporation and their local business partner, Central Cipta Murdaya (CCM). Lufti was designated by the GOI to resolve the situation and promised both security guarantees and CCM cooperation if Nike representatives would consider returning to Indonesia. Both Ambassador and Lufti agreed that a swift GOI response to resolve the dispute was in the interest of all parties. End Summary.

SBY is in the Loop

¶2. (SBU) Lufti explained that President Susilo Bambang Yudhoyono (SBY) directed Lufti, the GOI Minister of Trade, Minister of Industry, and Minister of Manpower to meet with Vice-President (VP) Kalla to discuss Nike's case. SBY designated Lufti to coordinate GOI response. Lufti acknowledged GOI fell short in key areas, notably security, but assured Ambassador that SBY was personally engaged on the issue. Lufti promised GOI security for all employees and gave his personal guarantee that Nike executives would not be detained by authorities even in the event of civil litigation. Lufti offered to fly to Singapore to meet with Nike executives personally. He asked Ambassador to call Nike to encourage them to return to Indonesia.

¶3. (SBU) Ambassador Hume agreed to call Nike executives, but reminded Lufti that security assurances must come from GOI directly. He explained that Nike executives were likely less anxious in the immediate sense, but still wary of entering a litigation trap upon return to Indonesia. Lufti responded that he would "escort them to the airport and put them on a plane myself before allowing that to happen." Both Ambassador and Lufti agreed on the need to handle disputes quietly and not in the press or the streets.

¶4. (SBU) The Ambassador asked Lufti about CCM's culpability and willingness to participate in a resolution. Lufti responded that he already spoke with CCM and promised Murdaya family cooperation. Lufti claimed GOI is pressuring the family to fulfill CCM's financial obligations and accept a "reasonable and fair" phase-out proposal from Nike. While promising to play a facilitating role, Lufti hinted that Nike concessions on the terms of the phase-out would be helpful. Ambassador offered to make a public statement once a negotiated agreement is successfully realized.

Background

15. (SBU) Four Nike executives abruptly departed Jakarta for Singapore on July 16 after thousands of protesters descended upon their Jakarta headquarters, instigated by one of Nike's estranged local business partners, CCM. Nike executives informed CCM on July 6 that Nike would end their business relationship with CCM at the end of 2007. Nike explained the decision was based on the factory's inability to meet the company's minimum contractual product quality and delivery standards. CCM responded by ceasing all Nike factory production and directing disgruntled employees to Nike's downtown offices. CCM also made veiled personal threats directed at the Nike executives. The ensuing protest alarmed Nike executives, who received Embassy assistance in obtaining protection from local police and safe passage to the airport. Ultimately, the crowd dispersed peacefully and Nike executives were able to leave their offices. Nike executives, accompanied by the FSN Investigators, were then taken to Soekarno-Hatta airport via police escort where they departed the country.

An Infamous Local Partner

16. (SBU) COMMENT: Business contacts tell us that the Murdaya family "plays hard ball" and has been known to use their money and influence to harass foreign investors, even having them arrested in some cases. According to Forbes, Siti Hartati Murdaya is ranked 16th among the 40 richest people in Indonesia. Hartati's husband, Murdaya Poo, is a Member of Parliament from the Indonesian Democratic Party of Struggle (PDI-P) representing East Java. GOI's Cabinet level response to this latest incident reflects growing GOI awareness of the need to reassure foreign investors already spooked by the Newmont Mining and Asian Pulp and Paper (APP) scandals. END COMMENT

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